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Ownership Changes Within Selected Food Industries - -

A Progress Report 1/

A major development affecting agricultural marketing in the post-World War II period has been the growing size and scope of operations of some of the firms engaged in the processing and distributing of food products. This development is having important repercussions on producers of agricultural products through its effects on the markets in which they sell. Buyers tend to be larger and fewer in number. Their specifications as to product quality and uniformity are, in many cases, becoming more narrowly defined. Procurement of many commodities by retailers under these circumstances is continuing to shift from wholesale markets to processors, assemblers, and in some cases individual farmers. This in turn has weakened the position of many traditional markets as price-making centers and has fostered the testing of different methods in the pricing of commodities purchased from farmers. Numerous related developments associated with the changing size and degree of integration of marketing firms likewise have influenced markets in which agricultural products are sold.

One of the first requirements in assessing the present and future magnitude of these changes is to determine the extent of the growth of individual marketing firms and the principal factors accounting for this expansion. Certain data are available in reports based on trade journals and private financial manuals, articles by individual economists and private research agencies, and reports by congressional and other legislative and regulatory bodies.

For the most part, however, information from these sources concerning growth by acquisition or other means has been fragmentary and comparison among reports has been difficult because of definitional differences. As a result, there is no clear present picture of the extent to which firms marketing agricultural products have acquired other firms or of the principal economic characteristics of the acquired or acquiring firms.

In view of these limitations, the Department, with the cooperation of the baking, dairy, wholesale and retail food industries, and the U. S. Bureau of the Census is attempting to obtain information directly from marketing firms which will provide a more complete picture of growth by acquisition since 1946.

This progress report provides information obtained from a small sample of firms and enables a comparison of the effectiveness of this method with indirect methods of obtaining information. It indicates that the direct method is more satisfactory than reliance on data gathered from trade journals and financial manuals. Firms apparently will reply to a questionnaire in sufficient number to justify the use of this method. This study suggests that reliance on the direct method will ultimately provide more complete and dependable data as to number of acquisitions, size of acquiring company and of acquired units, method of acquisition, and other characteristics. However, this sample does not offer an adequate basis for projecting ultimate results, for it may not be a miniature image of the total population.

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The Industries and the Sample

The sample was selected by the Bureau of the Census from the records for establishments collected in the 1954 Censuses of Manufactures and Business. It was restricted to dairy and bakery manufacturing establishments and to wholesale and retail food establishments.

The sample included every establishment with 250 or more employees and smaller establishments in proportion to their frequency in various size groups. This procedure yielded slightly less than 700 establishments which were attached to 303 companies. 2/ The survey questionnaire mailed to all companies in the sample requested data on a company -- rather than an establishment -- basis. 3/ In addition, a sample of 14 corporate dairy cooperatives, selected proportionate to size, was added.

This initial tabulation is based on replies from 96 of 142 dairies, 4/ 95 of 112 bakeries, 30 of 42 wholesalers, and 14 of the 21 retail companies receiving questionnaires. The sample as a whole averaged a 74 percent return.

Extent and Nature of Acquisitions

Of the 235 companies supplying data, 77 reported acquisition of other companies during the 11-year period 1946-56 (table 17). In total, 466 companies were acquired by those corporations reporting. Dairy companies accounted for more than 60 percent of the acquisitions reported by firms in the sample.

Information also was obtained showing the size of the companies making acquisitions and the size of the companies acquired. The percentages shown in table 18 were computed using as the base number of companies and acquisitions only those for which sales and employment data were reported, 5/ whereas the acquisitions data presented in table 17 include all acquisitions, even those for which employment size and value of sales data are not available. As will be seen from data in table 18, most acquiring companies had annual sales in excess of 1 million dollars. The relative importance of large firms -- those with annual sales of several hundred million dollars -- as compared with smaller firms in making acquisitions cannot be determined clearly from the information assembled thus far.

The acquired companies, for which value of sales information was reported, averaged much smaller in size than the acquiring companies, as is shown by data in table 19. Practically all companies acquired had annual sales of less than 1 million dollars.

2/ At the time of the 1954 Census there were approximately 10,200 companies within the dairy industry, 5,500 within the baking industry, 3,300 within the wholesale food trade, and 330,000 within the retail food trade.

3/ All corporations which operated at least 1 establishment with 250 employees or more in 1954 are in the sample. However, a company with a very large number of employees but operating establishments all with less than 250 employees might not have been selected.

4/ Corporate cooperatives are included.

5/ Several companies, because of the inadequacy of records for their earlier period, and in some instances for later periods as well, were unable to report the information for value of sales and for average employment, which the study requested.

Table 17.- Number of acquisitions and dispositions reported by
235 food marketing companies, 1946-56

Industry	Number of companies reporting	Number making acquisition	Number of acquisitions	Number of dispositions
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
Dairy products	96	40	295	16
Bakery products	95	24	85	52
Wholesale food trade:	30	8	34	19
Retail food trade ..	14	5	52	10
Total	235	77	466	97

Table 18.- Average annual volume of sales of companies making acquisitions,
reported by sample of food marketing companies, 1946-56

Average annual value of sales	Percentage of total number of companies ^{1/}			
	Dairy products	Bakery products	Wholesale food trade	Retail food trade
<u>1,000 dollars</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
100 - 999	6	1	2	0
1,000 - 999,999	87	99	98	60
1,000,000 or more ..	7	0	0	40
Total	100	100	100	100

^{1/} Some companies reporting acquisitions did not report sales so
tables 17 and 18 do not relate to the same number of companies.

Table 19.- Average annual value of sales of companies acquired by a sample
of food marketing companies, 1946-56

Average annual value of sales	Percentage of total number of companies ^{1/}			
	Dairy products	Bakery products	Wholesale food trade	Retail food trade
<u>1,000 dollars</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Less than 100	34	7	16	10
100 - 999	46	44	36	39
1,000 - 999,999	19	49	48	51
1,000,000 or more ..	^{2/}	0	0	0
Total	^{3/} 100	100	100	100

^{1/} Sales were not reported for some of the companies acquired, so
tables 17 and 19 do not relate to the same number of companies.

^{2/} Less than 0.5 percent.

^{3/} Above percentages do not add to 100 because of rounding.

Size of acquired company also may be measured by number of employees (table 20). Well over one-half of all acquired companies for which information was obtained had fewer than 50 employees and only occasionally companies had as many as 1,000 or more employees.

Table 20.- Number of persons employed during year previous to acquisition by companies acquired by a sample of food marketing companies, 1946-56

Number of employees:	Percentage of total number of companies ^{1/}			
	Dairy products	Bakery products	Wholesale food trade	Retail food trade
	Percent	Percent	Percent	Percent
0 - 49	81	31	61	64
50 - 99	10	19	5	14
100 - 199	5	21	13	14
200 - 299	2	13	4	8
300 - 999	2	6	13	0
1,000 or more	<u>2/</u>	10	4	0
Total	100	100	100	100

^{1/} Some companies reporting acquisitions did not report employment so tables 17 and 20 do not relate to the same number of companies.

^{2/} Less than 0.5 percent.

Of the 77 companies making acquisitions, 24 made only 1; 30 made from 2 to 4; 15 made from 5 to 9; and 8 made more than 10 but fewer than 80. Of these 77 companies, 52 made horizontal acquisitions, that is, within the same industry as classified according to the three digit Standard Industrial Classification system. Ten made a single industry crossover; that is, acquired one or more companies in some other 3-digit industry than the acquiring company; 13 made from 2 to 4 crossovers; and 2 made from 5 to 9 industry crossovers.

Of the total 466 acquisitions, 109 were proprietorships; 69 were partnerships; 269 were corporations; 3 were corporate cooperatives; and 11 were classified as other (table 21).

Table 21.- Form of business organization of units acquired by a sample of food marketing companies, 1946-56

Type of ownership	Percentage of total number of companies				Total number of companies
	Dairy products	Bakery products	Wholesale food trade	Retail food trade	
	Percent	Percent	Percent	Percent	Number
Proprietorship	32	5	3	21	109
Partnership	10	6	92	2	69
Corporation	52	88	0	77	269
Corporate cooperative :	3	0	0	0	8
Other	3	1	5	0	11
Total	100	100	100	100	466

Method of Acquisition

The method by which the acquisitions were accomplished varied by industry, and within each industry certain methods seemed to be more highly favored than others. In the dairy industry ^{6/} purchase of assets of the acquired company with cash accounted for 79 percent of the acquisitions, purchase of assets of the acquired company with stock of acquiring company accounted for 5 percent, purchase of stock with cash by private purchase accounted for 5 percent, purchase of stock of acquired company with stock of acquiring company accounted for 4 percent, consolidation by replacing stock of both acquired and acquiring company with stock of consolidated company accounted for 1 percent, acquisition of control of production or sales facilities by contract or lease accounted for 3 percent.

In the baking industry, purchase of assets of the acquired company with cash accounted for 54 percent, purchase of stock of the acquired company with cash -- private purchase -- 25 percent, purchase of stock of acquired company with stock of acquiring company, 18 percent. For the wholesale industry, purchase of assets of acquired company with cash accounted for 58 percent; purchase of stock of acquired company with cash -- private purchase -- 18 percent; purchase of stock of acquired company with stock of acquiring company, 9 percent; acquisition of control by contract or lease, 6 percent. For the retail industry, purchase of assets of acquired company with cash, 68 percent; purchase of assets of acquired company with stock of acquiring company, 16 percent; purchase of stock of acquired company with cash -- private purchase -- 14 percent.

Not only did the sample companies make acquisitions, they simultaneously were making dispositions. While they made a total of 466 acquisitions they made 97 dispositions (table 17). The dairy industry made 16 dispositions in contrast with 295 acquisitions, bakeries made 52 dispositions in comparison with 85 acquisitions, wholesale companies acquired 34 and disposed of 19, and retailers acquired 52 and disposed of 10.

For the companies reporting disposal methods, two predominated: Sale of assets of disposed companies for cash accounted for 39 percent, and operations entirely discontinued and assets liquidated piecemeal accounted for 18 percent.

Comparison with Studies Based on Indirect Sources of Information

The Federal Trade Commission report of acquisitions for the years 1948 to 1954, listed the following: Dairy products, 97; bakery products, 26; wholesale trade, 14; and retail trade, 1. ^{7/}

^{6/} Since in some cases more than one acquisition method was reported for making an acquisition, the totals of methods used for acquisitions do not compare with the total of acquisitions made. Therefore, the application of percentages used in this section to the total of acquisitions made will not yield the number of times a given method of acquisition was used.

^{7/} Committee on the Judiciary, House of Representatives, 84th Congress, 1st Session, pursuant to H. Rep. 22, Interim Report, the Antitrust Subcommittee (Subcommittee No. 5). Pp. 48-57. This report listed the information on which the Federal Trade Commission based a report which they had previously issued.

The AMS survey here reported shows 162 acquisitions by dairy companies during the 7-year period 1948 to 1954, 37 acquisitions by baking companies, 11 acquisitions by wholesale companies, and 21 acquisitions by retail companies. Total acquisitions during this 7-year period aggregated 231.

Mueller, who used the same financial journals as the Federal Trade Commission but included trade journals, found 1,062 acquisitions. The AMS survey tends to support Mueller's contention that reports based essentially on financial journals and other indirect sources probably understate acquisition activity. ^{8/} The Bureau of the Census reports that in several cases (fewer than 10) companies listed in the FTC report also happened to fall in the pilot sample. A total of 62 more acquisitions by these companies were reported in the pilot sample for the period 1948-54. Dependence on published reports as a source of information also may result in the missing completely of some companies which acquired firms by merger or other methods. On the other hand, direct reports may not be free of error, and the greater the period of time covered by the report the greater the possibility of inaccuracy for the earlier portion of the report period. Although both the FTC study and the pilot study reflect slightly higher yearly rates of acquisition for the period 1950-54 than for the period 1948-50, this may not necessarily mean an upward trend in acquisition activity. It may reflect less adequate coverage because records available to reporting companies for earlier years are less complete. Also, earlier records frequently do not include reports of acquisitions made by companies which later were acquired by companies during the period covered by the pilot study.

^{8/} Mueller, Willard F., "A Comment on the FTC's Report on Mergers," Journal of Farm Economics, Feb. 1957, pp. 140-155.

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